1.8 Fiscal Analysis

1.8.1 Introduction

As the descriptions of the different types of activities and procedures required by the Municipal Permit may be found in the other components of the Urban Runoff Management Program document, this component will focus on identifying the cost to the City associated with the implementation of the operating and capital elements of the required activities.

The City's Urban Runoff Management Program must meet the fiscal analysis requirements of the Municipal Permit, as described in Table 1.8-1.

Table 1.8-1. Permit Requirements - Fiscal Analysis.

Section	*Requirement (Summary)*	*Permit Section*
1.8.2	Develop a budget for storm water expenditures for each fiscal year covered by the Municipal Permit	F.8
1.8.4	Document activities for Jurisdictional Urban Runoff Management Program Annual Assessment	I.

The City of San Diego began collecting a storm drain fee from water and sewer utility customers in 1990 for the purpose of reimbursing the General Fund for costs associated with storm drain maintenance. The Storm Drain Revenue Fund is used for the operations, maintenance, capital projects and management of the storm drain system. The Fee has not been increased since it was set at $0.95 per month per residential customer by resolution No. R-287688 effective August 1, 1996. Moreover, the current fee structure fails to conform to the proportionality (equity) requirement of Proposition 218, and thus must be revised before any increase is considered.

1.8.2 Fiscal Analysis Activities

Current Fiscal Analysis activities:

- Determine departments' responsibilities in the areas of Program Framework, Best Management Practices, and Planning and Development.
- Departments' will be responsible for identifying and determining costs associated with Permit Compliance.
- Storm Water Pollution Prevention Program will compile, review and possibly modify all cost data from departments.
- Determine annual citywide budget for Storm Water Program.

- Determine potential revenue sources for Storm Water Program.
- Annually review Financial Assessment for all Permit Components.

A major component of Fiscal Analysis is determining cost and establishing the budget. Each year the Financial Management Department, with input from the various City departments, prepares a proposed budget for the upcoming fiscal year, July 1 though June 30. Final budget decisions are made by vote of the City Council through a budget ordinance prior to the beginning of the new fiscal year.

Budget Forecast

The adoption and implementation of the Urban Runoff Management Program to comply with the regulatory requirements of the Municipal Storm Water Permit will pose a much greater financial responsibility on the City. The Storm Water Program will administer the citywide budget for the Program.

The implementation of the new requirements on a citywide basis is expected to cost as follows:

Table 1.8-2 Estimated Storm Water Program costs to implement the Urban Runoff Management Program during the five years of the Municipal Permit.

Permit Year/Budget Period	Cost*
1. July 1, 2001 - June 30, 2002	$27,254,833
2. July 1, 2002 - June 30, 2003	$55,828,016
3. July 1, 2003 - June 30, 2004	$49,921,368
4. July 1, 2004 - June 30, 2005	$50,678,255
5. July 1, 2005 - June 30, 2006	$52,928,582
Total Five-Year Cost	**$236,611,054**

*Actual implementation of the activities identified in the Urban Runoff Management Program is dependent upon identification of funding in future yearly budgets and City Council approval.

To better address the water quality and storm drain infrastructure improvement needs, the City needs to prepare a storm drainage master plan. This plan is included in the Urban Runoff Management Program and is anticipated to result in capital projects and priorities for system improvement. These future system improvement costs are not included in the Urban Runoff Management Program costs and will need to addressed at a later date. The current Capital Improvements Program primarily addresses issues of immediate concern rather than long-term requirements. The existing needs list of storm drain capital expenditures, including critical projects, replacement of deteriorating corrugated metal pipeline, repair and replacement of channels and floodways, and other

projects, is currently being revised and updated. The total cost of the Storm Drain Capital Improvements Program over the next ten years is estimated to exceed $100 million. Taking inflation into account, this requires the annual average expenditure of between $7 and $10 million on capital improvements.

The Capital Improvements Program includes $3,437,610 for storm water and storm drains/flood control projects in Fiscal Year 2002. For future year's expenses it is proposed that the phased funding approach be implemented to fund the necessary Capital Improvements projects.

Potential Revenue Sources

For Fiscal Year 2002 (July 1, 2001 to June 30, 2002), the Storm Drain Fund revenues are projected to be approximately $6 million per year. Several City departments use the Storm Drain Revenue Fund, as follows:

- Transportation Department operates and maintains the storm water conveyance system
- General Services Department handles compliance with the Municipal Storm Water Permit including oversight of the Urban Runoff Management Program
- Water Department performs the billing and collection of Storm Drain Fees
- Public Liability Claims Fund covers any storm drain related public liability claims

Since inception, the Storm Drain Revenue Fund has funded only a portion of the storm drain maintenance, drainage capital projects, and efforts to reduce pollutants in storm water to the maximum extent practicable.

Other funding sources for the Urban Runoff Management Program include the Sewer Revenue Fund, Water Revenue Fund, and Refuse Disposal Fund. However, the majority of the Urban Runoff Management Program costs would be borne by the General Fund due to legal restrictions on the special revenue funds. Given the limited resources of the City's General Fund to support the additional Program costs that will be incurred over the five-year life of the Permit, it is recommended that the Urban Runoff Management Program be financed partially or fully by user fee revenues. The alternative funding methods available to the City are outlined in Table 1.8-3.

Table 1.8-3. Funding Methods.

Funding Source	Required Approvals	Comments
Storm Drain Fee Increase	Majority vote of property owners	Under Prop 218, City can choose either method (Options 1 or 2) of obtaining approval. The majority vote of property owners is a mailed-ballot election that may be run at any time during the year, and requires the approval of only the majority of RETURNED BALLOTS.

Storm Drain Fee Increase	2/3 vote of electorate	Under Prop 218, City can choose either method (Options 1 or 2) of obtaining approval. The 2/3 vote option requires 45-day notification before the November general election.
Special Tax/Parcel Tax	2/3 vote of electorate	Levied for Storm Drain purposes
General Tax (Citywide)	Majority vote of electorate(1)	Levied for general government purposes. Allocate to Storm Drain out of General Fund.
General Tax (Citywide)	Majority vote of electorate(1)	By voter approval, a Citywide special act district is formed that imposes a fixed charge levy on property tax bill for Storm Drain purposes.
General Tax (Countywide)	Majority vote of electorate	By voter approval, a Countywide special act district is formed that imposes a fixed charge levy on property tax bill for Storm Drain purposes.
Mello Roos District/Bonds	2/3 vote of electorate	Tax can be levied for improvements and maintenance over current funding levels. Tax is not ad valorem, but is fixed and levied per parcel.
General Obligation Bond	2/3 vote of electorate	Bond proceeds used for real property improvements only. Ad valorem property tax levy.

(1) Approval of the March 2002 ballot measure may change the required approval to 2/3 of the vote for General Tax measures.

Storm Drain Fee

The current fee is $0.95 per single family residence meter per month, and $0.0647 per hundred cubic feet of metered water per month for all other meters. As revenues from the Storm Drain Fee amount to only $5,963,379 in Fiscal Year 2002, an increase will be necessary to recover Program operating costs.

Storm Drain Enterprise Fund

Establishing an independent storm water enterprise fund would allow the City to position itself strategically to respond to current and future storm water issues and needs, particularly any bonding issues that might arise without such a fund. The City's General Fund may initially support the Urban Runoff Management Program but user revenues should eventually fund the entire program. Given the stringent and far-reaching requirements of the Permit, use of a stable and reliable revenue source independent of the General Fund is the best long-term strategy. It would allow for long-range storm water and flood control programs and system improvement planning on a scale previously achievable only by water, wastewater, solid waste, and other municipal utilities. The Fund may include language similar to that of the City's Water and Sewer fees, such that fees may be increased every four or five years by a certain percentage. Alternatively, the fees could include an annual increase set at the same level as the Consumer Price Index.

Fee Structure and Proposition 218

Should the City choose to fund the Program by increasing Storm Drain Fees, the fee structure must be revised. When the fees were first implemented, there was no

evaluation of fee proportionality or equity issues, as is now required by Articles XIIIC and XIIID of the California State Constitution (Proposition 218). User fees, by definition, must relate to the proportional quantity of service used by each customer. Currently, single family residences are charged a flat fee of $11.40 each year, and all other customers are charged based on their water consumption each month. For all customers, however, Storm Drain Fees must legally be based not on water consumption, but on use of the storm drain utility, or on quantity of runoff produced by the property each year. As it is impossible to measure the exact quantity and quality of runoff that is produced by each individual parcel of land, it is recommended that Storm Drain fees be calculated based on parcel size and total impervious area. An average area can be defined for single-family residential customers and these customers can be charged uniformly. Non-residential customers with varying impervious areas must be charged by actual impervious area, or at the very least by average area for the land-use class. The City does not currently have this information at its disposal, and thus would need to hire a consultant to conduct a study and construct a database of parcel size and stormwater runoff coefficients for all property (including City-owned streets, buildings, and tax-exempt parcels) within the municipal boundaries.

The City Attorney's Office has opined that any increase to the City's Storm Drain Fees must not only account for the proportionality requirement, but must also meet the balloting requirements of Proposition 218. According to Proposition 218, if rates are property-related, any proposed increase must be approved by majority vote in the general election, or by 2/3 vote of all property owners. However, the City may assert that the proposed utility fees are not property-related, but rather based on consumption of the storm drain utility (like sewer rates), and therefore not subject to Proposition 218 balloting requirements.

The soonest that a funding proposal could be put before the voters in a general election would be November 2002. It will be necessary to perform an extensive public outreach program to inform the community of the need for the improved services and increased revenues.

Cost of Services Study

A cost of services study is required because of Proposition 218 that analyzes the allocation of costs of service to cost-causative components, and distribution of operating and capital costs to various units or customer classes. The Study will concentrate on the following areas:

Policy Review – establish the current organizational, financial, legal, and/or governmental constraints with which the City must operate its storm water conveyance system.

Documentation Review – review of storm water conveyance system reports, financial reports, current and projected debt service, and customer information to establish the

history of operation, expense and revenue information and determine the annual revenue requirements and identify the user of the storm water conveyance system.

Cost Estimation – provide replacement cost estimates for equipment required for the operation of facilities over their design life.

Allocate Costs of Service to Cost-Causative Components – allocate the revenue requirements to various cost-causative components for operating and capital cost items.

Cost of Services Report – provide a written cost-of-service study report which will provide the background information regarding the development of revenue requirements, allocation of costs of service to functional cost components, and the allocation of fixed and variable charges and their respective impact on the base fee and commodity charges.

Revenue Source Implementation

The Storm Water Program will provide revenue source recommendations to the City Council for their consideration. Pursuant to Council direction, a vote of the electorate or a vote of property owners will follow.

1.8.3 Annual Assessment

The following form is representative of the quantitative and qualitative measures that will be tracked by the Storm Water Program regarding the Fiscal Analysis component in order to prepare the Jurisdictional Urban Runoff Management Program annual assessment. ***These assessment factors and questions are presented for information only; some questions may be modified prior to each annual assessment period, and not all of the factors or questions below may apply to each component's responsible department(s)***. Prior to each fiscal year, a tailored Annual Assessment Form will be distributed to responsible departments, and will include an Excel spreadsheet containing direct and indirect quantitative and qualitative measures similar to the example below. The Storm Water Program will provide a blank copy of the Annual Assessment Form and additional guidance to department management prior to the beginning of each fiscal year. Submission of this report will require department director approval.

Program Assessment Form – Fiscal Analysis Component

QUANTITATIVE ASSESSMENT:

At this time there are no quantitative measures in the Fiscal Analysis Component. These measures may be added in the future if appropriate based on the annual self-assessment.

QUALITATIVE ASSESSMENT:

1. Describe the major activities of the Fiscal Analysis Component over the past year.

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2. Are the Fiscal Analysis methods effective at representing the funding needs and expenditures of the Storm Water Program?

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3. Summarize new activities or improvements to be implemented next year as a result of your self-assessment.

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4. Other Comments.

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FINANCIAL ASSESSMENT:

Estimated annual storm water expenditures:

Personnel Expenditures:_____
Non-personnel Expenditures:_____